

Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 EURE-00 EB-03 SP-02 L-01 INR-05

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P 111452Z APR 75

FM AMEMBASSY VIENNA

TO SECSTATE WASHDC PRIORITY 5330

C O N F I D E N T I A L SECTION 1 OF 2 VIENNA 3085

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E.O. 11652: GDS

TAGS: PFOR, ENRG, EINV, EAID, AU

SUBJECT: KREISKY REQUEST FOR USE OF ERP FUNDS FOR INTEREST
SUBSIDIES

REF: A. VIENNA 2835; (B) VIENNA 3061; (C) VIENNA 2194

1. SUMMARY: REF (A) REPORTED CHANCELLOR KREISKY'S
REQUEST TO AMBASSADOR "TO BORROW" ERP FUNDS FOR PURPOSE OF
ASSISTING AILING AUSTRIAN COAL MINING INDUSTRY. REF (B)
CONTAINS TEXT OF CHANCELLOR'S LETTER TO AMBASSADOR
RECEIVED APRIL 9. EMBASSY HAS DISCUSSED CHANCELLOR'S
REQUEST WITH OFFICIALS IN FEDERAL CHANCELLERY INCLUDING
STATE SECRETARY VESELSKY. IT APPEARS WHAT KREISKY HAS
IN MIND IS NOT BORROWING ERP FUNDS BUT RATHER A GRANT
FROM ERP FUNDS TO SUBSIDIZE INTEREST RATES ON CREDITS
FROM BANKING SECTOR. SINCE GRANTS DO NOT APPEAR TO BE
WITHIN PURVIEW OF US-AUSTRIAN COUNTERPART SETTLEMENT
AGREEMENT OF 1961, US APPROVAL OR AMENDMENT OF AFORECITED
AGREEMENT WOULD PRESUMABLY BE REQUIRED. FOR REASONS OUT-
LINED IN THIS CABLE EMBASSY RECOMMENDS THAT IT BE
AUTHORIZED TO SUGGEST TO GOA THAT IT FIND OTHER
MEANS TO MEET PROPOSED OBJECTIVE. (END SUMMARY)

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2. FROM DISCUSSIONS IN FEDERAL CHANCELLERY, INCLUDING

DISCUSSIONS WITH VESELSKY (SENIOR COORDINATOR FOR ECONOMIC MATTERS AND CLOSE CONFIDANT OF KREISKY), FOLLOWING PICTURE EMERGES ON KREISKY' REQUEST TO MAKE SMALL ERP GRANT OF AS 50 MILLION (US \$3 MILLION) TO ASSIST AUSTRIAN INDUSTRY, PARTICULARLY COAL MINING SECTOR. CHANCELLOR, WITH AN OBVIOUS EYE ON FALL ELECTIONS, IS SEEKING WAYS TO FORESTALL ANY MAJOR DOWNTURN IN ECONOMY, WHOSE GROWTH RATE ACCORDING TO RECENTLY REVISED ESTIMATES IS CURRENTLY 2-1/2 PERCENT COMPARED TO 4-1/2 PERCENT LAST YEAR. CHANCELLOR FOCUSING ON CERTAIN AREAS SUCH AS WESTERN STYRIA WHERE A FEW INDUSTRIES AND MINES ARE ENCOUNTERING DIFFICULTIES. ON APRIL 7 CHANCELLOR TOGETHER WITH MINISTERS OF FINANCE AND TRADE ANNOUNCED MAJOR AS 12 BILLION (\$800 MILLION) PROGRAM TO STIMULATE INVESTMENT. PROGRAM INCLUDES RELEASING PREVIOUSLY BLOCKED BUDGET FUNDS IN AMOUNT OF AS 6.7 BILLION AND AS 5 BILLION CREDITS INVOLVING BLEND OF ERP FUNDS WITH PRIVATE CREDITS. INVESTMENT WOULD PRESUMABLY INCLUDE REOPENING OF A NUMBER OF COAL MINES.

3. KREISKY APPARENTLY WAS NOT FULLY BRIEFED WHEN HE MENTIONED SUBJECT TO AMBASSADOR, SINCE HE USED TERM " TO BORROW." SINCE ERP FUNDS ARE MANAGED BY GOA AS A REVOLVING CREDIT FUNDZN A LOAN WOULD NOT REQUIRE US APPROVAL, PROVIDED LOANS MADE WITHIN SCOPE OF 1961 BILATERAL AGREEMENT.

4. THE PROGRAM WHICH CHANCELLOR HAS IN MIND IS AS FOLLOWS: GOA IS PLANNING TO GENERATE A TOTAL OF ABOUT AS 5 BILLION FOR INVESTMENT CREDITS AT PREFERENTIAL INTEREST RATES. ONE AND ONE-HALF BILLION AS WOULD COME FROM NORMAL ERP SOURCES WHICH WOULD BE LENT AT 5 PERCENT. BANKS HAVE AGREED TO MATCH THIS WITH AN EQUAL AMOUNT AT 10 PERCENT INTEREST. THUS BLENDED CREDITS FROM THESE TWO SOURCES WOULD CARRY A RATE OF 7-1/2 PERCENT.

5. BANKS ARE PREPARED TO MAKE ADDITIONAL CREDIT TOTALLING ONE BILLION AS FOR WHICH THEY WOULD RECEIVE, ACCORDING TO KREISKY PROPOSAL, A 50 MILLION AS (\$3
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MILLION) GRANT FROM ERP FUNDS AS AN INTEREST SUBSIDY. THIS WOULD LOWER EFFECTIVE RATE TO BORROWER TO 5 PERCENT. HOWEVER, IF BANKS RECEIVE SUCH SUBSIDY, THE APPARENTLY WILLING TO GENERATE ANOTHER ONE BILLION AS IN CREDITS AT 10 PERCENT. AGAIN, BLENDED CREDITS DERIVING FROM THE AFOREMENTIONED 2 BILLION AS WOULD HAVE AN EFFECTIVE RATE OF 7-1/2 PERCENT.

6. WE ASKED VESELSKY WHETHER GRANT IDEA WAS ONE-TIME PROPOSITION OR WHEHER THIS WOULD BE REPEATED IN SUBSEQUENT YEARS FOR LIFE OF LOANS. VESELSKY WAFFLED HIS REPLY AND SAID THEIR IMMEDIATE INTEREST WAS TO GET INTEREST SUBSIDY SCHEME MOVING AS QUICKLY AS POSSIBLE, THUS LEAVING US CLEARLY WITH IMPRESSION THAT POLITICAL PRIORITIES ARE KEY FACTOR AND THAT INTEREST SUBSIDY ASPECT EITHER NOT WELL THOUGHT THROUGH OR DELIBERATELY OBFUSCATED. VESELSKY APPEARED SOMEWHAT UNCOMFORTABLE AT HAVING BEEN ASKED BY KREISKY TO COORDINATE THIS MATTER ANS SEEMED AWARE OF COMPLEX LEGAL ISSUES (INCLUDING AMENDMENT TO AUSTRIAN ERP LAW) GRANT PROPOSITION COULD CREATE. HE OBSERVED THAT GOA WOULD BE "HARD HIT" BY A NEGATIVE RESPONSE FROM USG. HOEVER, WHEN WE SUGGESTED TO HIM THAT AMENDING 1961 AGREEMENT MIGHT BE A LONG DRAWN OUT PROCESS AND MIGHT NOT EVEN BE POSSIBLE SINCE INTENT OF ORIGINAL AGREEMENT WAS TO SET UP ERP COUNTERPART RESOURCES ON REVOLVING CREDIT BASIS, HE WAS QUICK TO EXPRESS HIS PRIVATE VIEW THAT THERE MAY BE ANOTHER WAY TO ACHIEVE INTEREST SUBSIDIES WITHOUT NECESSITY OF RESORTING TO ERP GRANTS.

7. COMMENT: KREISKY'S PROPOSAL MOTIVATED IN GOOD MEASURE BY POLITICAL CONSIDERATIONS OF UPCOMING NATIONAL ELECTIONS, IN WHICH SOCIALISTS ARE LIKELY TO LOSE ABSOLUTE MAJORITY, AND BY TIGHT BUDGETARY SITUATION.

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ACTION EUR-08

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P 111452Z APR 75

FM AMEMBASSY VIENNA

TO SECSTATE WASHDC PRIORITY 5331

C O N F I D E N T I A L SECTION 2 OF 2 VIENNA 3085

STADIS////////////////////////////////////

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REFS: (A) VIENNA 2835, (B) VIENNA 3061, AND
(C) VIENNA 2194

1. SUMMARY: REF (A) REPORTED CHANCELLOR KREISKY'S REQUEST TO AMBASSADOR "TO BORROW" ERP FUNDS FOR PURPOSE OF ASSISTING AILING AUSTRIAN COAL MINING INDUSTRY. REF (B) CONTAINS TEXT OF CHANCELLOR'S LETTER TO AMBASSADOR RECEIVED APRIL 9. EMBASSY HAD DISCUSSED CHANCELLOR'S REQUEST WITH OFFICIALS IN FEDERAL CHANCELLERY INCLUDING STATE SECRETARY VESELSKY. IT APPEARS WHAT KREISKY HAS IN MIND IS NOT BORROWING ERP FUNDS BUT RATHER A GRANT FOR ERP FUNDS TO SUBSIDIZE INTEREST RATES ON CREDITS FROM BANKING SECTOR. SINCE GRANTS DO NOT APPEAR TO BE WITHIN PURVIEW OF US-AUSTRIAN COUNTERPART SETTLEMENT AGREEMENT OF 1961, US APPROVAL OR AMENDMENT OF AFORESAID AGREEMENT WOULD PRESUMABLY BE REQUIRED. FOR REASONS OUTLINED IN THIS CABLE EMBASSY RECOMMENDS THAT IT BE ON FORMER FRONT IT IS OBVIOUS THAT DURING ELECTION YEAR HE IS ANXIOUS TO FORESTALL RECESSIONARY DEVELOPMENTS ALTHOUGH EMBASSY HAS NOT YET SEEN EVIDENCE OF SERIOUS DOWNWARD TRENDS IN AUSTRIA. CHANCELLOR'S EFFORT CAN ALSO BE READ AS ATTEMPT TO CONSOLIDATE SUPPORT FOR SOCIALISTS IN PROVINCES, PARTICULARLY UPPER AUSTRIA WHERE HIS RECENT BOUT REGARDING VOEST ALPINE'S PRO-
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POSED INVESTMENT IN SOUTH AFRICA (REF C) MAY HAVE TARNISHED HIS LEADERSHIP IMAGE. ANOTHER AND PERHAPS MORE SIGNIFICANT FACTOR IS FINANCE MINISTER'S DIFFICULTY WITH PRESENT BUDGET AND HIS RELUCTANCE TO SEEK PARLIAMENTARY APPROVAL FOR SUPPLEMENTAL APPROPRIATIONS IN SUPPORT OF NEW INVESTMENT CREDITS PROGRAM. WE UNDERSTAND IN FACT THAT CREDIT PROGRAM DESCRIBED PARAS 4 AND 5 ABOVE WORKED OUT WITH MAJOR BANKS WHO INSIST ON SOME TYPE OF INTEREST SUBSIDY ARRANGEMENT.

8. OUR CONCERN IS THAT WE ARE BEING DRAWN INTO THE INTERNAL FINANCIAL MANIPULATIONS OF THE AUSTRIAN GOVERNMENT AND FINANCIAL COMMUNITY THAT ARE DESIGNED ESSENTIALLY TO STRENGTHEN INCUMBENT GOVERNMENT'S POSITION IN FORTHCOMING NATIONAL ELECTIONS. WITHOUT PASSING JUDGMENT ON THE MERITS OF AN INVESTMENT CREDIT PROGRAM TO SHORE UP CERTAIN WEAK INDUSTRIES OR INDUSTRIES THAT HAVE SUFFERED THROUGH DECLINING EXPORTS, WE DO NOT FEEL THAT IT WOULD BE APPROPRIATE FOR US TO AGREE TO A DEPARTURE FROM THE BASIC PRINCIPLES SET FORTH UNDER 1961 AGREEMENT BY MAKING A GRANT TO

GOA NOW, GIVEN CURRENT GENERALLY HEALTHY STATE OF AUSTRIAN ECONOMY. OTHER IMPORTANT CONSIDERATION AGAINST MAKING GRANT WOULD BE PRECEDENT-CREATING NATURE OF SUCH MOVE FOR INTEGRITY OF ERP FUND IN AUSTRIA, AND POSSIBLY FOR US AID OR ERP FUNDS ELSEWHERE, WHICH ONLY WASHINGTON CAN JUDGE.

9. SINCE MATTER WAS RAISED BY CHANCELLOR PERSONALLY DURING AMBASSADOR'S FIRST CALL, WE BELIEVE HOWEVER THAT TACTICALLY THE BETTER APPROACH WOULD BE FOR US TO QUIETLY DISCOURAGE GOA OFFICIALS ON ERP GRANT PROPOSITION AND ENCOURAGE THEM TO FIND ANOTHER WAY TO DEAL WITH INTEREST SUBSIDY RATHER THAN GIVING THEM A STRAIGHT FORWARD TURNDOWN ON REQUEST FOR GRANT. AMOUNT INVOLVED FOR SUBSIDY IS OBVIOUSLY SMALL (\$3 MILLION) AND FOR THAT MATTER GOA BANKING SECTOR HAS HAD NO DIFFICULTY DURING PAST YEAR IN RAISING CAPITAL OUTSIDE OF AUSTRIA.

10. WE KNOW THAT GOA MOVING AHEAD RAPIDLY WITH
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INVESTMENT CREDIT PROGRAM. THUS IT IS DESIRABLE THAT WE GIVE USG REACTION AS SOON AS POSSIBLE. WOULD APPRECIATE DEPARTMENT'S ADVICE AND COMMENTS SOONEST.
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